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C O N F I D E N T I A L SECTION 01 OF 02 CHISINAU 000564

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TAGS: [ECON](#) [PGOV](#) [PHUM](#) [MD](#)
SUBJECT: NEW MOLDOVAN FINANCE MINISTER WANTS TO CUT SPENDING
REF: CHISINAU 369

Classified By: Ambassador Michael D. Kirby for reasons 1.4(b) and (d).

¶1. (C) SUMMARY: Moldova's new Finance Minister, Mariana Durlesteanu, a reformer appointed by Prime Minister Greceanii, faces the challenge of rising inflation and an opaque budget process. A non-partisan technocrat, she wants to balance the government's budget and rationalize expenditures according to investment priorities. Durlesteanu understands that in a pre-election period it will be difficult for the ruling Party of Communists of Moldova (PCRM) to approve spending cuts at the central and local levels. She wants to create a national investment fund to channel excess government revenues and privatization income into productive investments. Her tenure may well serve as a barometer of just how far Greceanii's economic reforms can go before they crash into the PCRM's political goals. END SUMMARY.

FROM LONDON TO CHISINAU

¶2. (SBU) On May 22, the Ambassador made his introductory call on the new Minister of Finance, Mariana Durlesteanu, who was previously Moldova's Ambassador to the United Kingdom (reftel). A protege of Prime Minister Zinaida Greceanii, she previously served at the Ministry of Finance as director of the external debt department. Durlesteanu was open and frank about the challenges the economy faces and her policy recommendations, the likelihood of strong political opposition in a pre-election year, and her re-adjustment to life in Moldova.

MANAGING INFLATION

¶3. (C) Asked about growing inflation, Durlesteanu responded that Moldova's inflation was driven by remittances (estimated at USD 1.2 billion in 2007), growing investments in fixed capital assets, and increased investments from the GOM. She noted that inflation, especially rising food prices, was discussed weekly at the GOM's cabinet meeting. On Fridays, First Deputy Prime Minister and Minister of Economy Igor Dodon chaired a brain-storming session with key Ministers to discuss GOM policies which could alleviate the situation. Durlesteanu noted that many of the factors contributing to the increase in food prices were actually non-monetary issues, such as low domestic productivity, policies which limit market access, and monopolistic control on the local market.

¶4. (C) On fiscal policy, Durlesteanu was pushing the GOM to cut spending and balance the budget. She said that Prime Minister Greceanii had informally approved this plan, but it had yet to be adopted by the government. Durlesteanu was very forthcoming about her recommendation that the GOM must revise its priorities and cut spending in order to control inflation. The Ambassador commented that the USG was

promoting reforms that would support sustainable budgets.

15. (C) Durlesteanu frankly noted the lack of order in the local government budget process and the lack of technical capacity at the local level. Durlesteanu commented that she saw no rational planning at the raion level for local expenditures. She told the Ambassador that upon assuming the Ministry, she found Moldovan Lei 980 million (about USD 98 million) deposited in local government bank accounts. This money should have been spent, but local leaders were holding it to use for political gain later in the year. The Ambassador noted his conversation with her predecessor and the accusations by the opposition that funding was driven more by political affiliation than actual need.

INVESTMENT FUND: GOM ANNOUNCES PRIVATIZATIONS

16. (SBU) Durlesteanu spoke extensively about creating a national investment fund to channel excess government revenues, donor assistance and the profits from planned privatizations. Although the fund was still a concept, Durlesteanu noted that the GOM would move forward with "massive" privatizations in 2008. On May 22, Minister of Economy Dodon announced that the GOM would auction government shares in 40 joint stock companies in mid-June. He also announced that in September, the GOM would sell all its shares in the "Unic" central department store and "Tutun CTC" tobacco factory on the Moldovan Stock Exchange. The GOM expects to earn some USD 45-55 million alone from the sale of these two companies.

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COMMENT

17. (C) Durlesteanu is a non-partisan economic reformer loyal to Greceanii. She's re-adjusting to life in Moldova after her experience in London. It seems her time in the U.K. had a positive impact on her views. She understands that Parliament may not approve of her calls to cut spending prior to a crucial national election, but she believes the GOM must eliminate the budget deficit to help combat inflation. She also wants local government budget reform, noting the lack of transparency in the current process. Her views sound positive to our ears, but it remains to be seen how far she (and Prime Minister Greceanii) can continue to push these economic changes prior to the national elections. President Voronin and the PCRM need quick results (i.e. populist measures) to appease the electorate.

KIRBY